

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 CIAE-00 COME-00 EB-08
INR-07 LAB-04 NSAE-00 SIL-01 SSO-00 INRE-00 AID-05
OMB-01 XMB-02 PM-04 NSC-05 SP-02 SS-15 NSCE-00
USIE-00 /067 W
-----291930Z 031456 /47

O R 291731Z MAR 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC IMMEDIATE 3679
DEPT TREAS WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
DIA WASHDC
USMISSIO EC BRUSSELS
USMISSION NATO
USMISSION OECD PARIS
AMCONSUL NAPLES
CONSUL MILAN 4514
USCINCEUR VAINGEN GERMANY
USDOCOSOUTH//INTAF

C O N F I D E N T I A L SECTION 1 OF 2 ROME 5210

E.O. 11652: GDS
TAGS: ELAB, EFIN, IT, IMF
SUBJ: COMPARISON LABOR COST MEASURE HITS SNAG

PASS FRB

REF: ROME 4391; ROME 4646

1. SUMMARY: EFFORTS TO REACH A COMPROMISE AGREEMENT TO MODIFY THE
GOI'S "FISCALIZATION" DECREE HAVE BEEN COMPLICATED BY BACKLASH FROM
NORTHERN INDUSTRIAL WORKERS AND UNION LEADERS AGAINST ANY CON-
CESSIONS. THIS HAS FORCED NATIONAL LABOR (CCU) LEADERS TO STIFFEN
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THEIR POSITION. IN MEETING MARCH 28, GOI PROPOSED MODIFICATION OF
COST OF LIVING ESCALATOR TREATMENT OF GAS, ELECTRIC, RAIL AND
POSTAL RATES IN ADDITION TO NEWSPAPER AND LOCAL TRANSIT RATES,
AS QUID PRO QUO FOR DROPPING TWO DECREE ARTICLES TO WHICH CCU
OBJECTS. CCU LEADERS EMERGED COMPLAINING THAT GOI DEMANDS WERE
EXCESSIVE. CCU EXECUTIVE COMMITTEE MEETS TODAY TO DECIDE RE-
SPONSE. PRELIMINARY INFORMAL GOI-CCU CONTACTS HAS REPORTEDLY

PAVED WAY FOR COMPROMISE SOLUTION FOLLOWING GOI DISCUSSIONS WITH POLITICAL PARTIES LAST WEEK, BUT OPTIMISM HAS NOW FADED. HIGH MINTREAS OFFICIAL GAVE EMBOFF RATHER PESSIMISTIC EVALUATION OF ABILITY OF GOI TO REACH COMPROMISE WITH UNIONS WHICH WOULD ALSO CONFORM TO IMF REQUIREMENT. GOI AND CCU WILL MEET AGAIN AFTER EXECUTIVE COMMITTEE MEETING, PERHAPS LATE MARCH 29. END SUMMARY.

2. LABOR (CCU) LEADERS AND GOVERNMENT MET MARCH 28 TO DISCUSS POSSIBLE COMPROMISE SOLUTION TO IMPASSE OVER GOVERNMENT'S "FISCALIZATION" DECREE. CCU EXECUTIVE COMMITTEE WILL CONSIDER MATTER MARCH 29 AND CCU LEADERS WILL THEN MEET AGAIN WITH GOVERNMENT, PERHAPS LATE MARCH 29. GOVERNMENT REPORTEDLY OFFERED TO ELIMINATE DECREE ARTICLES 3 AND 4 (PENALTIES AGAINST COMPANIES NEGOTIATING WAGE INCREASES AND "STERILIZATION" OF IVA), BUT INSISTED THAT LOWER "SOCIAL" RATES REPLACE STANDARD RATES FOR GAS AND ELECTRICITY AS WELL AS FOR NEWSPAPERS AND LOCAL TRANSIT, IN THE COST-OF-LIVING "BASKET" FOR THE WAGE ESCALATOR SYSTEM (SCALA MOBILE). THE GOVERNMENT REPORTEDLY ALSO ASKED A SIMILAR ADJUSTMENT IN "BASKET" RATES FOR RAILROAD AND POSTAL RATES. CCU LEADERS HAD PUBLICLY OFFERED TO SUBSTITUTE "SOCIAL" (ACTUALLY MONTHLY SUBSCRIPTION) RATES FOR MUNICIPAL TRANSIT AND NEWSPAPERS IN RETURN FOR ELIMINATION OF ARTICLES 3 AND 4, AND, REPORTEDLY, HAD ALSO DEMONSTRATED FLEXIBILITY ON ELECTRIC AND GAS RATES DURING PRELIMINARY INFORMAL CONVERSATIONS, BUT EMERGED FROM MEETING COMPLAINING THAT THE GOVERNMENT WAS ASKING TOO MUCH. THEY ALSO CRITICIZED GOVERNMENT INVESTMENT PROPOSALS FOR THE SOUTH AS INADEQUATE.

3. GOI AND CCU REPORTEDLY AGREED THAT SUBSTITUTE FOR ARTICLE 3
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(PROVISIONS DISCOURAGING COMPANIES FROM NEGOTIATING WAGE INCREASES) WOULD BE PARLIAMENTARY RESOLUTION CALLING ON UNIONS TO CURTAIL OR REFRAIN FROM COMPANY-LEVEL WAGE DEMANDS DURING 1977, WHICH UNIONS WOULD THEN ATTEMPT TO ENFORCE.

4. STIFFENED ATTITUDE OF CCU LEADERS IS RESULT OF STRONG BACKLASH FROM NORTHERN INDUSTRIAL RANK-AND-FILE, REFLECTED BY LOCAL AND CATEGORY (ESPECIALLY METALWORKERS) UNION LEADERS, PARTICULARLY IN CISL AND UIL. THIS RESPONSE FROM LABOR'S MOST MILITANT AND VOCAL SECTOR WILL BE PROMINENT DURING THE MARCH 29 EXECUTIVE COMMITTEE MEETING, AND MAY KEEP THE CCU FROM GOING BEYOND ITS OFFER ON NEWS-PAPER AND TRANSIT RATES. THE BACKLASH WAS MANIFESTED IN A DOCUMENT ISSUED BY 70 NORTHERN CISL LEADERS ON MARCH 25 AND LATER SIGNED BY ANOTHER 40, AS WELL AS SIMILAR MANIFESTOS BY FACTORY COUNCILS AT FIAT, ALFA ROMEO AND MANY OTHER COMPANIES. THESE MANIFESTOS REJECTED THE NEWSPAPER AND TRANSIT RATE OFFERS AS WELL AS ANY OTHER CONCESSIONS ON THE ESCALATOR AND CRITICIZED THE CCU LEADERS FOR VIOLATING THE UNDERSTANDINGS OF THE JANUARY 7-8 NATIONAL ASSEMBLY OF UNION OFFICIALS (ROME 348), REPUDIATING THE OBJECTIVES OF THE

RECENT NATIONAL STRIKE AND, GENERALLY, OF TWO-FACED BEHAVIOR-
MILITANT DEMAGOGY WHEN ADDRESSING THE WORKERS AND MEEK SUBMISSION
AND CONCESSIONS IN NEGOTIATIONS WITH THE GOVERNMENT. THEY
CALLED FOR MORE INTERNAL DEMOCRACY AND RANK-AND-FILE CONTROL
OVER THE LEADERSHIP, AND SPECIFICALLY FOR PROMPT CONVOCATION
OF ANOTHER NATIONAL ASSEMBLY.

5. ANOTHER FACTOR COMPLICATING THE VOI-CCU NEGOTIATIONS ON THE
"FISCALIZATION" DECREE IS A NUMBER OF UNRESOLVED PUBLIC SECTOR
NEGOTIATIONS. ALTHOUGH THE GOI SIGNED IN JANUARY A GENERAL
PUBLIC SECTOR AGREEMENT NEGOTIATED IN DECEMBER (ROME 20476)
MANY INDIVIDUAL SECTOR CONTRACTS HAVE NOT BEEN CONCLUDED AND PAY
INCREASES HAVE NOT BECOME EFFECTIVE YET, CAUSING CONSIDERABLE UN-
REST. INDEED, LOCAL GOVERNMENT, HOSPITAL AND A FEW OTHER CATEGORIES
OF PUBLIC EMPLOYEES WILL STRIKE ALL DAY MARCH 30 AND NATIONAL GOVERN-
MENT EMPLOYEES WILL JOIN THEM IN STRIKES APRIL 5-7 UNLESS NEGOTI-
ATIONS PROGRESS SATISFACTORILY. ONE CAUSE OF THE DELAY MAY HAVE
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BEEN UNCERTAINTY AS TO WHERE THE GOI WOULD FIND THE MONEY TO PAY
THE INCREASES, WHICH IT IS NOW CLEAR WILL COME FROM THE VALUE ADDED
TAX (IVA) INCREASES UNDER THE "FISCALIZATION" DECREE. CONTRACT
SETTLEMENTS AND PROMPT PAYMENT OF WAGE INCREASES FOR PUBLIC
EMPLOYEES WOULD EASE TENSIONS CONSIDERABLY.

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OMB-01 XMB-02 PM-04 NSC-05 SP-02 SS-15 NSCE-00
USIE-00 /067 W

-----291929Z 031792 /47

O R 291731Z MAR 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC IMMEDIATE 3680
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INFO AMEMBASSY BONN
AMEMBASSY LONDON

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6. UNIONS ARE ALSO PROTESTING AGAINST FACT PARLIAMENT, IN EN-
ACTING INTO LAW A PREVIOUS DECREE CONVERTING INTO LAW PORTIONS OF
THE CCU-CONFINDUSTRIA AGREEMENT TO REDUCE LABOR COSTS AND IN-
CREASE PRODUCTIVITY, EXPANDED THE PROVISION WHICH BROKE LINK BE-
TWEEN COST-OF-LIVING INCREASES AND SEVERANCE PAY SO AS TO ELIMINATE
COST-OF-LIVING LINK WITH SENIORITY STEP INCREASES AS WELL. CCU IS
DEMANDING THAT PARLIAMENT DELETE THIS AMENDMENT, WHICH THE UNIONS
CONSIDER UNWARRANTED UNILATERAL PARLIAMENTARY ALTERATION OF A
PRIVATE COLLECTIVE BARGAINING AGREEMENT. IRONICALLY, CCU HAD
BEEN WILLING TO CONCEDE SEPARATION OF STEP INCREASES FROM THE
ESCALATOR, BUT CONFINDUSTRIA DECIDED NOT TO ASK FOR IT SINCE IT WOULD
HAVE AFFECTED WHITE COLLAR EMPLOYEES PRIMARILY. IT IS HARD TO
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JUDGE HOW SERIOUSLY THE UNIONS WILL PUSH THIS POINT AND WHETHER
OR NOT THE POLITICAL PARTIES WILL RESPOND.

7. UNION LEADERS ARE ALSO PRESSING GOVERNMENT TO ADOPT SOME FORM
OF EXPANDED PRICE CONTROL AS PART OF COMPROMISE PACKAGE. RE-
PORTEDLY, THIS WOULD CONSIST OF INCREASE IN NUMBER OF PRICES
WHICH ARE DIRECTLY CONTROLLED, PLUS REQUIREMENT THAT LARGE
COMPANIES (WITH SALES OF TEN BILLION LIRE OR MORE) SUBMIT
PRICE INCREASE PROPOSALS TO INTERMINISTERIAL PRICE COMMITTEE (CIP).
LATTER PRICE INCREASES WOULD TAKE EFFECT UNLESS CIP RAISED
OBJECTIONS WITHIN THIRTY DAYS.

8. COMMENT. IN BRIEF CONVERSATION ON MARCH 29 WITH EMBOFF, HIGH
MINISTRY OF TREASURY OFFICIAL WAS RATHER PESSIMISTIC ABOUT PRO-
SPECTS FOR GOI TO REACH ACCEPTABLE COMPROMISE AGREEMENT WITH
UNIONS ON "FISCALIZATION" DECREE AND ON INVESTMENT ISSUES.
WHILE GOI HAD HOPED THAT INFORMAL CONTACTS WITH UNION LEADERS
PRIOR TO MARCH 29 MEETING HAD PREPARED THE WAY FOR UNION ACCEP-
TANCE OF EXTENSION OF ESCALATOR BASKET MODIFICATIONS TO INCLUDE
SOME PUBLIC SERVICE RATES IN ADDITION TO URBAN TRANSPORT AND
NEWSPAPERS, RESULTS OF ALL-NIGHT MEETING WERE NOT ENCOURAGING.
SIMILARLY, HE THOUGH THAT BUDGET CEILINGS AGREED TO WITH IMF
WOULD MAKE IT DIFFICULT FOR GOI TO MAKE ANY SERIOUS COMMITMENT
TO EXPAND INVESTMENT AS REQUESTED BY UNIONS. GOI HAD AGREED WITH

FUND THAT IF SERILIZATION OF IVA HAD TO BE ABANDONED (ESCALATOR
FEEDBACK OF ABOUT 1.1 POINTS), THEN MEASURE INVOLVING PUBLIC
SERVICE TARIFFS MUST REDUCE FEEDBACK BY LARGER AMOUNT, I.E.,
ABOUT 1.8 POINTS. IN ANY CASE, IMF WOULD NOT ACCEPT MEASURE
WHICH APPLIED ONLY TO URBAN TRANSPORT AND NEWSPAPERS, AND HE
FEARED THAT WITHOUT THIS LABOR COST MEASURE THERE WOULD BE
NO STANDBY.GARDNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, UNION GOVERNMENT RELATIONS, POLITICAL SITUATION, LABOR UNIONS, POLITICAL CONCESSIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 29-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME05210
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770107-0882
Format: TEL
From: ROME
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770311/aaaaaizw.tel
Line Count: 231
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: db8d01b0-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 ROME 4391, 77 ROME 4646
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2959189
Secure: OPEN
Status: NATIVE
Subject: COMPARISON LABOR COST MEASURE HITS SNAG PASS FRB
TAGS: ELAB, EFIN, IT, IMF
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/db8d01b0-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009